

Annual Performance Report 2018-19

Part 5 – Risk and Compliance Statement



RISK AND COMPLIANCE STATEMENT 2018/2019

Scope of the Risk and Compliance Statement

Ofwat expects all water companies to provide a statement setting out how they have complied with their relevant statutory, licence and regulatory obligations for which Ofwat is the relevant enforcement authority (Obligations). The Risk and Compliance Statement is one of Ofwat's key regulatory tools and allows companies to demonstrate to customers their accountability and to Ofwat that they are complying with their obligations.

The Risk and Compliance Statement

We recognise the importance of confirming to our customers, stakeholders and regulators that we are meeting the statutory, licence and regulatory obligations that apply to our activities. We have set out in this Statement and our Annual Performance Report our compliance with and performance against certain key performance measures, legal requirements and regulatory outputs. We have also identified the risks that we are facing and the steps we are taking to manage and mitigate those risks.

In preparing this Statement we have considered, in particular, our compliance with those legal, licence and regulatory obligations for which Ofwat is the enforcement authority. In respect of these obligations, subject to the matters set out in this Statement, we confirm that:

- We have a full understanding of, and are meeting, our statutory, licence and regulatory obligations.
- We have taken steps to understand and meet our customers' expectations.
- We are satisfied that we have sufficient processes and internal systems of control fully to meet our obligations.
- We have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our risks.

In this Statement we also:

- explain links between the standards of performance we achieve and directors' and senior executives' pay (s35A Water Industry Act Statement);
- confirm that the auditors have been made aware of all relevant information (Companies Act 2006);
- explain our dividend policy (Licence Condition F and Regulatory Accounting Guideline 3.11);
- confirm that we have sufficient financial resources and facilities, management resources and systems of planning and internal control available to us for at least the next 12 months to meet our obligations as a water and sewerage undertaker and outline the main factors taken into account when making this statement (Licence Condition I17);
- confirm that a report has been prepared by the company's auditors and addressed to Ofwat, stating whether they are aware of any inconsistencies between the I17 Statement and the financial statements or any information obtained in the course of their work (Licence Condition I24 & I25);
- confirm we will be able to continue in operation and meet our liabilities as they fall due over the period to March 2030 (UK Corporate Governance Code and Ofwat requirement for Long Term Viability Statement);
- confirm that we have maintained an issuer credit rating which is classed as an Investor rating (Licence Condition I30);
- confirm that if a special administration order were to be made, we would have available sufficient non-financial resources to enable a special administrator to manage the affairs, business and property of our regulated activities (Licence Condition K Statement); and
- confirm that transactions with associated companies are at arm's length (except where agreed by Ofwat) with no cross subsidy occurring (Licence Condition I4 and Licence Condition F).

The Individual Statements

Dŵr Cymru fully recognises its accountability to its customers, its regulators and its other stakeholders and is pleased to provide the following Statements to demonstrate that it complies with its Obligations and is managing its risk in an appropriate manner.

1. The Company considers it has a full understanding of, and is meeting, its Obligations.

Our primary obligations and duties as a Water and Sewerage Undertaker are set out in the Water Industry Act 1991, the Water Resources Act 1991 and our Licence.

We keep our assurance processes continually under review to ensure they remain appropriate. A key emphasis is on ensuring the Company has sufficient processes and internal systems to meet fully our obligations. Our Legal Team works with colleagues throughout the business to identify new legal obligations and amendments to existing legislation. Colleagues in the Regulation Team keep abreast of developments or changes to our regulatory and licence obligations. The Compliance Team provides advice, guidance and support to the whole business on understanding the extent of any regulatory or licence obligation and implementing an appropriate internal control framework to ensure compliance with those obligations.

Modernising, or streamlining, the Licence is a long standing objective for Ofwat. The Licence is a key tool in protecting customers, and has done so since privatisation. Ofwat has instigated a programme to simplify the form of the Licence and a working group, of which Dŵr Cymru is a part, has taken forward the work on simplification. Consequently, during 2018/2019 Ofwat made a number of modifications to our Licence Conditions.

The Compliance Team viewed the introduction of the simpler provisions as an opportunity to enhance the awareness of business units of the obligations they contribute to deliver and to further embed compliance with “business as usual” processes. It is essential that all concerned in ensuring Licence condition compliance continue to understand their individual responsibilities and appropriate checks and controls are in place to meet our obligations.

However, to achieve this it was important to build upon the existing knowledge of the Licence Owners and to discuss the application of the new Licence Modifications with them. Consequently, for each individual Licence Condition covered within the Risk and Compliance Statement we have now:

- Established the Licence Condition “owner”;
- Established the relevant Dŵr Cymru Executive (DCE) Member;
- Produced a PowerPoint Guide outlining the purpose of the Condition and our obligations;
- Developed a proforma that:
 - Reviews the Licence Condition in detail to establish all requirements;
 - Establishes how compliance with the individual requirement is achieved;
 - Contains a “compliance statement” which is signed by the Licence Owner; and
 - Contains a “compliance declaration” signed by the relevant DCE Member.

For the 2018/2019 Risk and Compliance Statement we mapped Company processes against our statutory obligations. This was a desk exercise combined with consultation with operational managers. In each case the outcome of the process followed demonstrated that the obligation in question was recognised and that there were processes in place likely to ensure compliance. We continue to use a common reporting format which includes:

- obligation “owner” and responsible Member of the DCE Team;
- formal description of the obligation, including hyperlinks to the actual legislation referred to;
- description of the obligation in plain English;
- details of policies, procedures and responsible Departments;
- internal governance and assurance arrangements;
- external assurance arrangements; and
- any material performance departures in the report year.

Ofwat required our Board to provide assurance that the Company's PR19 Business Plan would enable it to meet its statutory and licence obligations and that we had taken into account the Welsh Government's Strategic Priorities and Objectives Statement.

In their 2019 price review methodology statement Ofwat specifically mentions two areas of compliance:

1. The Environment Agency and Natural England's water industry strategic environmental requirements (WISER) document; and
2. Natural Resources Wales "PR19 expectations and obligations" document.

The Compliance Team assisted colleagues on this aspect of the PR19 process and reviewed both documents in detail and listed all the statutory obligations mentioned. These obligations were then mapped against the statutory obligations already identified in the Company's Risk and Compliance Statement to reinforce the assurance that "we have a full understanding of, and are meeting, our statutory obligations".

We will continue our efforts to improve the awareness of business units of the obligations they contribute to deliver and to further embed compliance within "business as usual" processes.

2. The Company has taken steps to understand and meet customer expectations.

Our Customer-led Success approach places the needs of our customers at the heart of everything we do. We take a lot of pride in shaping our services around the needs of our customers - and delivering the best service possible is our top priority.

Our vision is to "earn the trust of our customers every day". This vision is fundamental to the way we work and enshrines our commitment that everything we do should be geared towards the benefit of our customers, not just our responses to high-profile events or campaigns.

Being customer-led means we can focus solely on providing the best service possible, and supporting those who need it most. When we plan for the future, whether it is over decades or over the next few years, working together with our customers forms a central part of our way of working.

Looking ahead to 2025

Our latest draft business plan for 2020/2025 sets out our vision for improving services to benefit customers and how we intend to pay for it through increasing efficiency while reducing customer bills. To gauge what our customers think of these plans we have been working with and listening to our customers about our plans for the future. As a result 40,000 customers have had a direct say on how we run their water and wastewater services.

What did we do?

We interacted with our customers across all the areas we serve because as a not-for-profit company, our customers' views are at the heart of everything we do. To get a better idea of what customers want to see in our business plan we:

- Attended major events across Wales and Herefordshire to help customers "have their say" on our priorities for the future;
- Developed innovative technological solutions to offer a wide choice to customers to have their say, including a world-first bilingual English-Welsh Facebook chatbot and a permanent focus "online community" customer focus group; and
- Carried out intensive focus groups and customer interviews to gain detailed insight into what customers value most.

What are our plans?

Our business plan for 2020/2025 maps out our proposals to meet customer priorities, including investing a record £2.3 billion over that period to supply customers with the best quality water, provide a safe and reliable wastewater service, and to protect the environment around us. This will go hand in hand with making sure bills are fair and affordable.

In the autumn of 2018 our Board established a Technology Committee to allow detailed consideration of the development and subsequent implementation of the Group's technology and digital strategy. This is part of our determination to provide better customer service at lower cost. In January, we launched the Retail 2025 Strategy, which sets out how we will deliver the process and technology change for 2020/2025, particularly how we will transform our digital experience for our customers.

Welsh Water 2050

One of the key pillars underpinning customers' trust is their faith that we are planning and preparing to meet those challenges in future. The Welsh Water 2050 vision sets out 18 "strategic responses" to trends which we, our key stakeholders, and our customers believe will help us meet those challenges head on. The plan responds to the feedback and concerns that we have heard from customers and stakeholders. We are building flexibility into our plans to respond to shifts in customer priorities, as well as future events - with reviews every five years to ensure it is delivering the best outcomes for our customers. It also aims to be consistent with the well-being goals set out in the Well-being of Future Generations Act 2015.

This long-term plan sits alongside our five-year investment for 2020/2025, which sets out what we intend to do as first steps towards realising this vision.

Our Communities

We see ourselves as more than just a water company - we want to be at the heart of our communities and bring long-lasting benefits to the areas we serve. In areas where our investment in assets is having a considerable impact on local communities, we are challenging ourselves to involve customers in a way we have not done before. This is illustrated by the work we have carried out in the Rhondda Fach area over the last year. We have also initiated further similar projects alongside our investment programmes in the Rhyl and Rhymney areas, which have commenced during the year.

Business Customers

Dŵr Cymru serves more than 100,000 business customers which range from water intensive manufacturers to small shops and hairdressers' salons. We know that the services we provide to businesses are essential - and we work to ensure we can help businesses make the most efficient and cost effective use of water and wastewater services. Business customers are supported to reduce their water usage, drive down energy costs, and reduce their carbon footprint. For 2018/2019 we were ranked first amongst all providers of customer service in MOSL's Market Performance Standards, for business customers in the competitive retail market.

Developer Customers

Dŵr Cymru provides services to housing, commercial and industrial developments, including major projects within our supply area, via our dedicated Developer Services team. In 2018/2019, the Welsh Water Developer Services team continued to be the best industry performer in the Water UK Developer Services Levels of Service scheme as it has since April 2015. This is the most consistent performance across the sector in England and Wales. We were also the first company to voluntarily implement a Developer Customer Services Commitment and also a Surface Water Incentive Scheme specifically for Developer customers.

Vulnerable Customers

In November 2018, we launched our strategy for vulnerable customers - setting out what we intend to do to support customers who are most in need of help and support. As part of the strategy, we intend to quadruple the number of customers on our Priority Services Register to over 100,000 by 2025 and work with other organisations to help identify those customers who may need extra practical help.

3. We have satisfied ourselves that we have sufficient processes and internal systems of control fully to meet our Obligations.

The Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management. The system of controls is designed to manage the risk of failure to achieve business objectives, and comprises audited policies and procedures aimed at identifying and managing the most significant risks faced by the business.

A detailed review of risk is set out below. In considering the development of the system of controls, the Executive team reviewed the materiality and the relative cost benefit associated with each identified significant risk. The internal control systems are designed to provide reasonable assurance against misstatements, loss or failure. The key features of our system are typical for a business of our scale and complexity. They include:

- identification of key strategic risks and opportunities facing the business;
- reviewing emerging and current issues at meetings of the Executive and the Quality and Environment Committee;
- clear management accountability for risk management, supported by regular risk reporting to the Board, the Quality and Environment Committee and the Audit Committee;
- acceptable risk parameters set by the Board, particularly in the context of the business planning process for the purposes of the next five year period;
- implementing controls that recognise that the nature and balance of risk changes and evolves;
- implementing procedures that govern the approval and control of major items of capital expenditure, the acquisition and disposal of material assets, and commitment to any arrangement that could give rise to a material liability;
- ensuring that financial systems and procedures are fit for purpose for preparing management and financial accounts; and
- an appropriate design of management processes to ensure the effective direction and review of the business' operations supported by accurate and timely key performance indicators.

The Board receives assurance from independent work by Dŵr Cymru's technical advisor on regulatory reporting issues (Jacobs Engineering Group) and from the programme of internal audit, the major findings from which are reviewed at the Audit Committee and the Quality and Environment Committee.

Risk is reviewed and considered at each meeting of the Board and a strategic review of risk is considered twice a year under a process chaired by the Chief Executive, who submits an update to the Board of the Executive team's view of the key strategic risks facing the business so that this can be considered by the Board as a whole. The process to review the effectiveness of internal control includes discussion with management on significant risk issues and a review of plans for, and results from, internal and external audit. The Audit Committee reports the results of its review to the Board which then draws its collective conclusion on the effectiveness of the system of internal controls.

In fulfilling this responsibility, the Board considers periodic reports from the Audit Committee, Quality and Environment Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of financial and operational performance. This enables the Board to review the effectiveness of the internal control system throughout the course of the year.

Our culture is also a cornerstone of the internal control framework and is based on shared values and beliefs. It helps shape the way we conduct our everyday business and ensures we strive to "do the right thing". Because of its importance, company culture is sometimes described as a layer of control even preceding the first line of defence against inaccurate information. Maintaining a positive culture is important to us because other controls might be occasional or periodic, but culture is ongoing and permanent.

The culture of our company is defined by the values we adopt and the knowledge, skills and attitudes of our employees. We have made it our Vision to earn the trust of our customers every day. It is vitally important that we act responsibly as individuals and as a company at all times - not only when we are required to do so by law, but also generally, in our working lives.

We are committed to ensuring that we give our employees the tools to do their job, which is why we invest in developing our people. We take pride in being Investors in People accredited, which was granted in June

2018 (gold status), for our work in creating a culture that encourages our people to flourish and realise their potential.

Our governance processes are based on transparency and fairness, underpinning the values of the Group and the company purpose. Dŵr Cymru is committed to comply with reporting requirements under the UK Corporate Governance Code, and the UKLA's Disclosure Guidance, Transparency Rules and Listing Rules and we continue to adhere to the principles set out in Ofwat's governance principles. We will continue to review our governance arrangements to ensure that we remain compliant with future changes to the UK Corporate Governance Code and our Licence Conditions. We are also supportive of Ofwat's intention to introduce a licence obligation to require companies to meet the four overarching objectives which comprise the revised board leadership, transparency and governance framework.

4. We have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our risks.

All colleagues play a part in ensuring effective risk management, which is essential to underpinning decision-making at all levels of the organisation, and ultimately to ensure the long term success of the business.

Our Process

- Our systems of internal control are designed to identify, evaluate and manage risks affecting the business and these systems or internal control are regularly considered and monitored by the Audit Committee. Action plans with agreed timescales are adopted and tracked.
- Having risks identified and changes in the assessment of risks highlighted means that the Board is able to undertake its own informed assessment of the principal risks facing the company and to work with the Executive to agree the Group's tolerance of risk in these key areas on a regular basis.
- This assessment is used on a day-to-day basis to inform decision making including decisions concerning our investment programme. Every strategic update paper presented to the Board and its Committees includes a risk report and where risks identify the need for further mitigation, will include action plans with agreed timescales to enable progress to be tracked.

Our Approach to Risk Management

- Individual teams within the business take responsibility for managing risks within their areas of responsibility.
- Each business unit feeds into a "bottom-up" risk management system, escalating risks through our governance structure of committees and team meetings. Risks recorded through that process are discussed during a more "top-down" discussion of risk every month at a meeting of the Executive team.
- The Executive team's update on strategic risks affecting the business is reviewed at every Board Meeting and the Board carries out an in-depth review of strategic risks twice every year. The Board assesses both the current and target level of each risk.
- The Audit Committee has accountability for overseeing the risk management processes and procedures and reports to the Board on the adequacy of internal controls.
- This bottom-up and top-down approach to risk management provides assurance that risks are being effectively managed by the business and identifies those areas where further mitigation steps are needed.
- The Board and its Committees review a summary of strategic risks facing the business at every meeting.

Three Lines of Defence

We continue to use the 'Three Lines of Defence' model to mitigate risk of non-compliance with our processes and policies:

1. First line of defence is ownership and management of risk.
This is fulfilled by our operational teams and managers.
2. Second line of defence is risk management and risk control.
This is fulfilled by our Compliance team and internal committees.

3. Third line of defence is independent review and oversight.
This is fulfilled by Internal and External Auditors, including our technical adviser on regulatory reporting issues (Jacobs Engineering Group).

Our customers need to know they can rely on the services we provide over the long term. The Board's consideration of the Group's long-term viability is embedded in our business planning process. This includes robust risk management controls, financial forecasting and sensitivity analysis, as well as regular budget review. Risks are identified and assessed through a continuous cycle of bottom-up reporting and review and top-down feedback and horizon scanning. The Board has analysed the efficacy and robustness of its internal control framework in managing the likely causes and consequences of each risk. We have stress-tested our business plan forecasts to 2030 against a variety of financial scenarios.

Our vision is to earn the trust of our customers every day. This commitment aligns closely to Ofwat's shared vision 'where customers, investors and wider society have trust and confidence in vital public water and wastewater services'. Consistent with the Company Monitoring Framework (CMF) we have considered the risk to customer 'trust and confidence' in the context of provision of accurate data and our ability to demonstrate we are listening to their needs and delivering the services they want and can afford.

We support Ofwat's approach to the CMF - we cannot expect to build and maintain the trust of our customers and stakeholders if we do not first understand if they have any concerns, and then seek to address them. Key to our CMF is the assurance we undertake at each stage of the process and how we engage with stakeholders to ensure that the information we provide is useful and relevant for their needs.

Dŵr Cymru was the only company to be promoted in 2019 to the self-assurance category for CMF, and is one of only two companies to achieve this status this year. Ofwat stated that "Dŵr Cymru has demonstrated the consistently high standards required for a "self-assurance" company and met the criteria to be promoted to the self-assurance category. We have looked at how well the company has performed against the expectations we have set for each of our assessments."

Ofwat has concluded that we are able to deliver accurate and reliable information that gives stakeholders trust and confidence. Our aspiration is to retain the self-assurance status.

The Ofwat CMF states that companies in the self-assurance category are not required to publish assurance plans. However, we see assurance as part of our continuous improvement programme and is an important part of our day-to-day activities and we therefore plan to continue to consult with stakeholders and publish a final assurance plan as we have done in previous years.

DISCLOSURE OF DEPARTURES FROM THE STATEMENT OF COMPLIANCE WITH OUR OBLIGATIONS

Our vision is to earn the trust of our customers every day. Strong governance and leadership, with the correct focus on customers at the heart of everything we do, together with properly transparent reporting, can play an important part in helping us achieve this vision.

The Board notes that the following have been identified. In all instances a thorough review was undertaken to identify the root cause and were discussed at either our Quality and Environment Committee or Audit Committee to obtain assurance that there were no significant risks to future compliance with the particular obligation. Further details on our performance can be found in our Annual Performance Report for 2018/2019 available at www.dwrcymru.com. The symbol ✓ below indicates that appropriate risk mitigation is in place.

Salmon and Freshwater Fisheries Act 1975

In September 2018 Natural Resources Wales accepted an Undertaking from Dŵr Cymru in respect of an offence under the Salmon and Freshwater Fisheries Act 1975. Heating oil leaking from the oil supply pipework at Llwyn Onn Water Treatment Works found a route to the surface water outfall in small amounts resulting in an oily film and odour being present in the Taf Fawr downstream of the culvert.

Subsequently, Dŵr Cymru made contributions of: £43,686 to South East Wales Rivers Trust to support habitat improvement in this area; £35,000 to Afonydd Cymru to help in removing barriers to migrating fish in various Welsh Rivers; and, £11,314 to 3Gs Development Trust to target engagement with various youth groups in the South Wales Valleys. In addition, £14,702 was paid to Natural Resources Wales for investigation costs.

A programme of improvement and upgrading was carried out at the Works. Environmental Consultants were also engaged to undertake various surveys and a water quality monitoring programme. In addition, regular dialogue was maintained with key local stakeholders. ✓

Water Quality

Under Section 68 of the Water Industry Act 1991, water companies are under a statutory duty to supply wholesome water. Regulation 4 of the Water Supply (Water Quality) Regulations 2018 in Wales provides that water is wholesome if it contains concentrations or values in respect of various properties, elements, organisms and substances that do not contravene the prescribed maximum, and in some cases, minimum concentrations or value.

Each year we carry out sampling at water treatment works, service reservoirs and customer taps to ensure our water meets the European and National Standards. During the 2018 calendar year we carried out 247,528 tests and found 45 had failed the required Standard (0.02%).

An investigation report is completed for each failure and this is shared with the Drinking Water Inspectorate (DWI). Any recommendations or suggestions made by DWI are recorded in action plans with agreed timescales to enable progress to be tracked. Our Quality and Environment Committee review the findings of investigations into all water quality failures and receive regular reports on action plan progress. ✓

Drinking Water Safety Plans

A continuous supply of safe clean drinking water is vital to maintain public health. Ensuring the quality of that drinking water is fundamental to the service we provide to our customers. We do this by ensuring that the risks to drinking water quality are identified and managed. A Drinking Water Safety Plan (DWSP) is the most effective way of ensuring that a water supply is safe for human consumption and that it meets the health based standards and other regulatory requirements. It is based on a comprehensive risk assessment and risk management approach to all the steps in a water supply chain from catchment to consumer.

All water quality failures trigger a review of the asset specific DWSP to enable the capture of new risks and the review of existing risk scores. If any of our DWSPs identify a potential danger to human health we inform DWI immediately. The DWI may consequently issue a legal Notice requiring the company to complete a programme of remedial actions.

We currently have 28 Improvement Programmes in place. We hold quarterly meetings with DWI to discuss progress. In addition, our Quality and Environment Committee also monitor progress against agreed timescales. ✓

Treating Wastewater

The Urban Waste Water Treatment Regulations and the Environmental Permitting Regulations set standards for sewage treatment. For each of our wastewater treatment works there is a permit which regulates the quality of wastewater we are allowed to discharge into rivers and coastal waters.

During the 2018 calendar year we achieved our best-ever wastewater treatment works compliance with just two non-compliant discharges out of the 559 permitted waste water treatment works discharges. Both of these failures were caused by one-off poor results.

We remain committed to achieving 100% compliance with an annual target of maintaining a downward trend of overall sample exceedances. A compliance steering group meets every month, focussed on improving compliance through cross-departmental collaboration. We have a number of plans in place to maintain and improve on our best ever performance including training of key colleagues, maintenance programmes and better use of data to inform capital investment and operational interventions. Our performance in this area is monitored by our Quality and Environment Committee. ✓

Water Treatment Works discharge limits for environmental permits

Water Treatment Works (WTW) discharge effluent from a range of activities associated with the production of drinking water. These discharges may be continuous or intermittent. The Environment Agency/Natural Resources Wales sets numeric limits on the effluent discharges.

During the year there were 10 non-compliant discharges out of 46 WTWs. Of these, 2 were deemed by Natural Resources Wales to have had the potential to have had a significant environmental impact. The Natural Resources Wales findings for all non-compliant discharges, together with any required actions and timescales, are captured on an internal Register. This Register is closely monitored and also discussed at monthly performance meetings to ensure that all actions are implemented within agreed timescales.

We have a number of plans in place to improve on our performance including training of key colleagues, updating procedures and better use of technology to improve reporting and provide better warning signs for early intervention. All our sites have been audited, with the findings used to create clear milestone improvement plans for each operational area for 2019. These are reported and tracked monthly. New Environmental Safety Plans have also been created to record all Environmental Risk and will be used to guide capital investment over the coming years. Our performance in this area is monitored by our Quality and Environment Committee. ✓

Pollution

In a challenging year of extreme weather we have seen an increase in the number of pollution incidents to 123 in the year (up from 115 in the previous year). This included two Category 1 (most serious). The first occurred at Five Fords Wastewater Treatment Work near Wrexham, following an accidental release of partially-treated effluent from a storm tank during some work to improve environmental compliance at the site. The second was at Felindre Water Treatment Works where an accidental spillage of lime entered the local watercourse.

In both cases we engaged in rapid remedial works at the site of the incidents and have worked with Natural Resources Wales to ensure we take steps to prevent such accidents in future. Incidents of pollution are among the most serious incidents we deal with. We do all that we can to protect the environment and have invested a huge amount since 2001 to minimise any detrimental effect we have on the world around us. Our performance in this area is monitored by our Quality and Environment Committee. ✓

General Data Protection Regulation

In the run up to the implementation of the General Data Protection Regulation (GDPR) under the Data Protection Act 2018, we implemented a programme of compliance across the business. We have significant numbers of interactions with our customers and we have experienced a number of technical breaches of the data protection rules.

Out of the breaches notified internally, we have deemed 10 to be serious and therefore notifiable to the Information Commissioner's Office (ICO). Of the 10 breaches we have notified to the ICO, where we received feedback from the ICO with recommended steps, we had already taken those steps, and the ICO confirmed that they were taking no action. In each case of a reported suspected breach, we ensure that any "lessons learnt" are taken into account, that the individual's training on data protection is up to date, and that the specific circumstances which led to the breach or "near miss" have been addressed with their manager. ✓

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR REGULATORY INFORMATION

The following confirmations from our Directors are provided to comply with the requirements of Condition F of our Licence, which requires that accounting statements are prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat, Condition I (Ring Fencing) and Condition K (Ring Fencing and Disposals of Land). In particular, Regulatory Accounting Guideline 3.11 issued in March 2019 requires the following Statements to be made by our Directors:

- Statement of Directors' remuneration and standards of performance.
- Statement on disclosure of information to auditors.
- Statement on Dividend Policy.
- Statement of sufficient non-financial resources.
- Statement of sufficient financial resources and facilities.
- Statement on Long Term Viability.

Statement on Directors' Remuneration and Standards of Performance

The Company is required under s35A of the Water Industry Act 1991 to provide a Statement that the remuneration paid to Executive Directors is linked to standards of performance. This Statement is provided within the Report from the Chair of the Remuneration Committee which can be found in our Annual Performance Report for 2018/2019 available at www.dwrcymru.com.

Statement on disclosure of information to auditors

In the case of each of the persons who are Directors at the time when the Annual Performance Report is approved under Section 418 of the Companies Act 2006 the following applies:

- a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

Statement on Dividend Policy

Licence Condition F and Section 3.4 of Regulatory Accounting Guideline 3.11 requires companies to report on the value of any dividend paid and provide a comprehensive explanation of the basis of the dividend.

Dŵr Cymru's ultimate parent undertaking is Glas Cymru Holdings Cyfyngedig, a company formed with the single purpose to manage Dŵr Cymru. As a company limited by guarantee, and having no shareholders, all financial surpluses are applied for the benefit of customers. The reserves built up from retained profits help to insulate Dŵr Cymru and its customers from any unexpected costs and also to improve credit quality to keep the cost of finance as low as possible.

A new Dividend Policy was approved by Ofwat in December 2015 and formally adopted by the Board in the June 2016 Board meeting. No monies are transferred out of the Glas Cymru group of companies under this Policy and all financial surpluses are applied for the benefit of customers. Our Dividend Policy expressly provides that intra-Group dividends will not be paid unless the Directors are satisfied that this would not impair Dŵr Cymru's ability to finance its regulatory activities.

During the year to 31 March 2019 no dividends were paid or received by the Company.

Statement on sufficient non-financial resources

Under paragraph 3.1 of Condition K of the Licence, the Company is at all times required to ensure, so far as is reasonably practicable, that if a special administration order were made, the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the Financial Statements for the year ended 31 March 2019 have been prepared on a going concern basis.

Statement on sufficient financial resources and facilities, management resources and systems of planning and control

The Directors have resolved that a Certificate required under Condition I17 be issued to the Water Services Regulation Authority confirming that in the opinion of the Directors:

- a) the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next twelve months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment); and
- b) the Company will, for at least the next twelve months, have available to it management resources and systems of planning and control which are sufficient to enable it to carry out those functions.

In providing this Certificate, the Directors have taken into account:

- a) the Company's Licence, which is in place on a rolling 25 year basis;
- b) the certainty on customer tariffs to March 2020 provided by the 2014 Final Determination of prices by Ofwat, following its acceptance by the Board;
- c) the financial strength of the Company and the management and other resources available to the Company as recorded in the Financial Statements for the year ended 31 March 2019;
- d) the bond programme of financing implemented by Dŵr Cymru (Financing) Limited, an associate Company, inter alia, to provide future financing for the Company (including the investment programme necessary to fulfil the Company's obligations under the Instrument of Appointment);
- e) the strong credit rating of the Company's bonds;
- f) the results from the ongoing monitoring of financial, operational and compliance controls and the risk management process reported to the Board via four formal committees; the Audit Committee; the Remuneration Committee; the Nominations Committee; and the Quality and Environment Committee. The Group's internal audit function has carried out a programme of work, which incorporates a review of the control environment;
- g) the annual review of the effectiveness of internal controls in compliance with the requirements of the UK Corporate Governance Code;
- h) the Company's formal risk and governance arrangements which are monitored by the Audit Committee and Board;
- i) the Company's employment policies and strategy;
- j) the Company's plans for the remainder of this regulatory period; and
- k) the Undertaking that Glas Cymru Cyfyngedig ("Glas Cymru") has given following the acquisition of the Company, in which Glas Cymru confirms that it (and each of its subsidiaries other than the Company) will:
 - provide the Company with all such information as may be necessary to enable the Company to comply with the requirements of the conditions of Appointments, or such additional information as the Director may reasonably require about their activities and the financing of them;
 - refrain from any action which would or may cause the Company to breach any of its obligations under the Act or conditions of Appointments;
 - ensure that at all times the Board of the Company contains a majority of Non-Executive Directors;
 - comply with the Principles of Good Governance outlined in the current UK Corporate Governance Code published by the Financial Reporting Council (or any successor document having a similar purpose or intent) as may from time to time be appended to or approved for the purposes of the Listing Rules of the UK Listing Authority; and
 - not make any changes to their respective Memorandum and Articles of Association without the consent of Ofwat.

This Directors' Certificate also confirms that in the opinion of the Directors all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to the Company, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

Sections I24 and I25 of Licence Condition I requires our independent auditors to produce a report that sets out:

- whether they are aware of any inconsistencies between the Director's Certificate and any of the accounting records; and

- the extent to which the Company has during the preceding 12 months complied with its obligations under Licence Condition I13.3 and I14.

A copy of the auditor's report can be found in our 2018/2019 Annual Performance Report available at www.dwrcymru.com.

Long Term Viability Statement

Our customers need to know they can rely on the services we provide over the long term. Ensuring the long-term resilience of our business, including financial resilience, is therefore a key area of focus for us. The Board's consideration of the Group's long-term viability is embedded in our business planning process. This includes robust risk management controls, financial forecasting and sensitivity analysis, as well as regular budget review. Risks are identified and assessed through a continuous cycle of bottom-up reporting and review and top-down feedback and horizon scanning. The Board has analysed the efficacy and robustness of its internal control framework in managing the likely causes and consequences of each risk. We have stress-tested our business plan forecasts to 2030 against a variety of financial scenarios.

Ofwat expects companies to confirm that they are financially viable over the longer term. Our approach to doing this complies fully with Ofwat's latest guidance contained within Information Notice 19/07 published in April 2018 as well as section C.2.2 of the UK Corporate Code.

As a result of their assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030. The Long Term Viability Statement is provided within our Report and Annual Accounts for 2018/2019 which is available at www.dwrcymru.com.

Licence Condition I4 – Trading with Associate Companies at Arm's Length

We have an Obligation to ensure that every transaction between the Appointed Business and any Associated Company is at arm's length so neither gives to nor receives from the other any cross-subsidy. There were no transactions with any associated companies except for:

- the Directors of Dŵr Cymru Cyfyngedig (DCC) are also directors of other companies within the Glas Cymru Group. However, the emoluments of the Directors are paid in full by Dŵr Cymru Cyfyngedig as their activities are predominantly related to the regulated water and sewerage business. During the year the Directors' emoluments amounted to £2,511,211 (2018: £2,483,961) (including pensions accruals);
- no dividends were paid or received by the Company during the year (2018: none);
- intercompany interest payable to Dŵr Cymru (Financing) Limited ("DCF"), another member of the Glas Cymru Holdings Cyfyngedig group, was £144,820,000 during the year (2018: £144,527,000). As at 31 March 2019 the balance outstanding on the intercompany loan from DCF stood at £2,577,311,000 (2018: £2,560,975,000);
- all borrowings raised by DCF are immediately on-lent to the company on an arm's length basis. The intercompany loan is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Anghyfyngedig and its subsidiaries. DCC, in its capacity as debtor, repays such principal and interest as is due on each borrowing on the due date plus 0.01%; and
- during the year, costs incurred by Welsh Water Infrastructure Limited of £312,542 (2018: £69,864), Welsh Water Organic Energy (Cardiff) Limited of £4,874 (2018: £nil) and Welsh Water Organic Energy Limited of £7,509 (2018: £nil) were paid by the company on their behalf. These transactions have been reported as intercompany balances payable.

Licence Condition I30 – Maintaining an Investment Grade Rating

The Directors confirm that throughout 2018/2019 the Company, or an Associated Company as issuer of debt on its behalf, has ensured that it has maintained at all times an issuer credit rating which is an Investment grade rating. Dŵr Cymru has the strongest credit ratings in the water sector, reflecting the Company's high level of creditworthiness. The ratings of the Company's Class A and B debt at 31 March 2019 were A neg/A2 neg/A from Standard & Poor's, Moody's and Fitch Ratings. On 5th June, Fitch reaffirmed their A rating but with a negative outlook.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

A handwritten signature in black ink, appearing to read 'Alastair Lyons', with a long horizontal stroke underneath.

Alastair Lyons

Chairman, Dŵr Cymru Cyfyngedig

5th July 2019



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25 June 2019

Attention: The Board
DCWW
Pentwyn Road
Nelson
Treharris
CF46 6LY

Project Name: Dŵr Cymru Welsh Water (DCWW) non-financial assurance
Project Number: B2271301

Subject: 2019 Risk and compliance statement - assurance letter

To the Board

DCWW has been promoted to self-assured status by Ofwat through its recent Company Monitoring Framework assessment. We are pleased your good work on assurance has been recognised and earned you this promotion. We look forward to continuing to work with you to retain the trust and confidence of your customers and stakeholders and to maintain and further enhance your assurance status.

As set out in IN 19/06, Ofwat requires companies to publish an annual risk and compliance statement, appropriately signed off, in which the Board clearly confirms that the company:

- considers that it has full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and
- has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

Where the company considers it is unable to provide such a statement IN 19/06 states that it should explain why it is unable to do so.

A company is required to consider its risk and compliance statement within the context of the Company Monitoring Framework (CMF).

As with other company information, it is important that stakeholders can have trust and confidence in your risk and compliance statement and to support this you have asked us to provide assurance in this area. Building on our approach over the last three years, we have reviewed the processes that support the declarations in your risk and compliance statement.

Our review focused on the approach and processes you follow to assess your compliance with your obligations. In 2016-17 you expanded upon the broad areas that you considered as relevant for the scope of this exercise, identifying additional key sources of legislation that impact on your activities. You have continued to assess your compliance using this broader definition of relevant obligations. We are aware that you do have processes to manage compliance with other obligations and duties, but that they are not explicitly covered as part of your risk and compliance statement (e.g. compliance with Health and Safety legislation and requirements).

We held a meeting with your Compliance Manager Paul Marsh to understand the changes and developments you have implemented since our review last year. This included a risk-based check on an obligation area (licence condition K was selected) to test the robustness of documented existing checks and controls. We did not review the processes used to assess compliance directly with any owners or nominated individuals associated with each obligation. In addition, we note that as part of our assurance of the information you are submitting in your Annual Performance Report (APR) and your annual scheme of charges, we have directly examined a number of the processes and controls you have in place to support your obligations in relation to reporting information and compliance with specific licence obligations.

Observations

From our assurance activity, we have observed some elements of good practice. Our main observations are as follows:

- Through our work assuring your APR, annual scheme of charges and submissions, and Price Review 2019 (PR19) Business Plan we have seen evidence of appropriate systems and controls;
- You have implemented a formal process for members of the Welsh Water Executive Team to sign off those licence conditions for which they are responsible. You stated that your ambition was to obtain their sign-off before you finalise your 2019 risk and compliance statement. At the time of our assurance you had not finalised the content of these statements or obtained this sign off, and we did not therefore review the signed off statements;
- For the other non-licence obligations, which fall within the scope of your risk and compliance statement your Compliance Team carries out an annual process to review, with nominated individuals within relevant operational departments, details of policies, procedures and guidance, internal governance and assurance arrangements, the external assurance arrangements for the relevant obligations and their horizon scanning. You told us that the outcome of each review is agreed between the nominated individual and the Compliance Team. However, we note there is no formal sign-off of these non-licence obligations such as is in place for the licence obligations; and
- You propose to include in your 2018/19 risk and compliance statement a section noting exceptions and areas for improvement. Where areas of exception and potential compliance risks have been identified they are noted and addressed in your assurance plan;

You confirmed that your strategy for the preparation of the 2019 risk and compliance statement was approved by the Welsh Water Executive Team.

Recommendations

On the basis of our work on your assurance and from our experiences working with other water companies, we are able to identify the following recommendations that would further improve your processes and continue to embed best practice. We recommend that:

- you implement a process for formal sign-off of non-licence obligations;
- as your process continues to mature, that you take a proactive approach and move towards risk-based verification and evidencing of documented checks and control; and
- you review the scope of your existing internal and external assurance to understand whether for some obligations this assurance is already being completed for other purposes. For example, to support statutory reporting to Natural Resources Wales (NRW) and the Environment Agency (EA).

Conclusions

We consider that, other than where indicated otherwise in this letter and/or the feedback we provided:

- you have a full understanding of the Company's relevant obligations (as you have interpreted the scope required for this exercise); and
- you have appropriate systems and processes in place to run your business and identify and manage risks in a way that meets the relevant obligations (as you have interpreted the scope of these).

25 June 2019
Subject: 2019 Risk and compliance statement - assurance letter



Yours sincerely

A handwritten signature in black ink, appearing to read "Alexandra Martin".

Alexandra Martin
Divisional Director: Regulation, Assurance & Advisory Delivery
0121 237 4000
Alexandra.Martin@jacobs.com